

Income and Sales Tax Options: Broad Base and Low Rates

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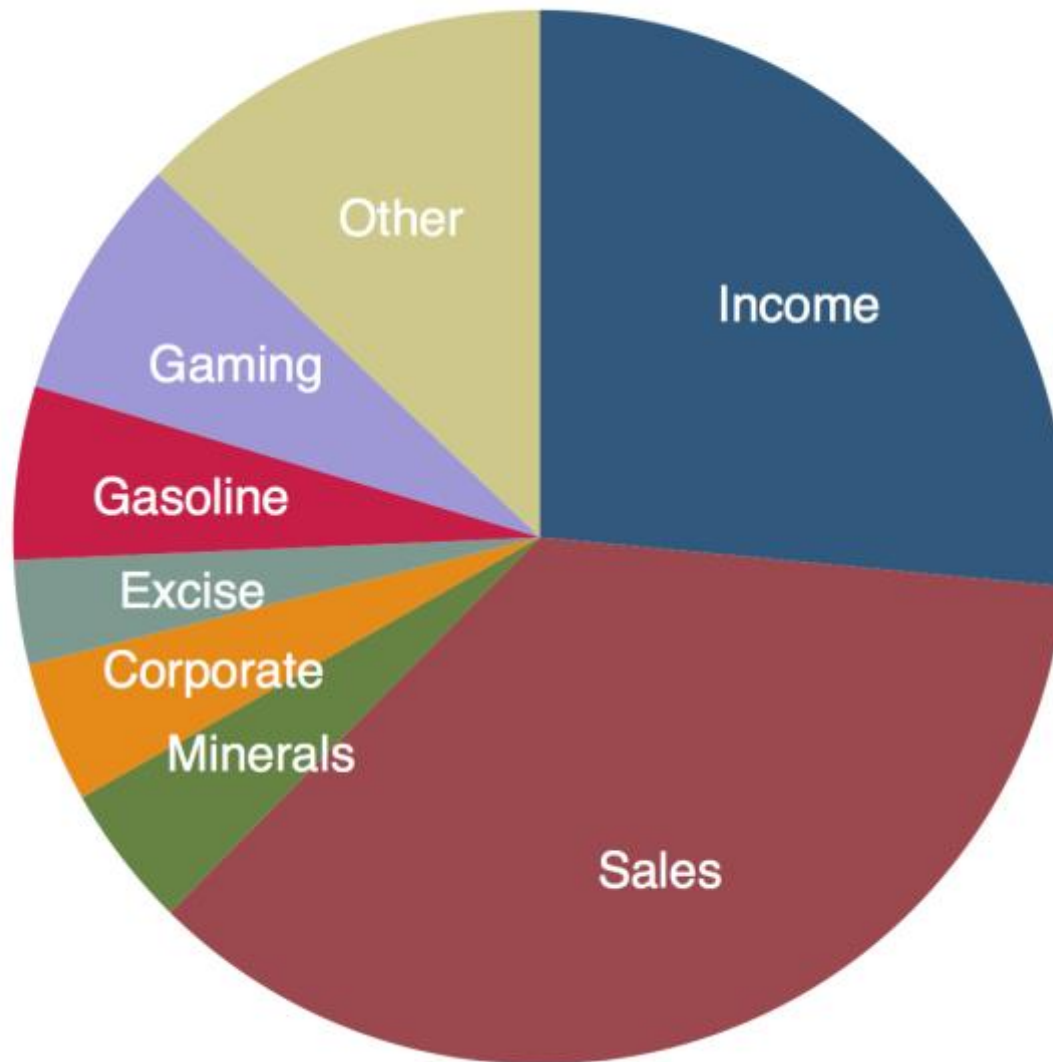
A State's Tax Structure

- ◆ Goal is not to establish how much money the state should raise in tax revenues— this is the domain of elected officials and the people they represent.
- ◆ *Evidence suggests there is a mismatch between what tax system generates in revenue based on best estimates presently and what state wants to spend*
- ◆ Tax structure must:
 - **Provide sufficient revenues**
 - Be predictable and stable
 - Promote competitiveness
 - Be fair
 - Be simple
- ◆ Economic Principle: Broad Tax Base and Low Tax Rate

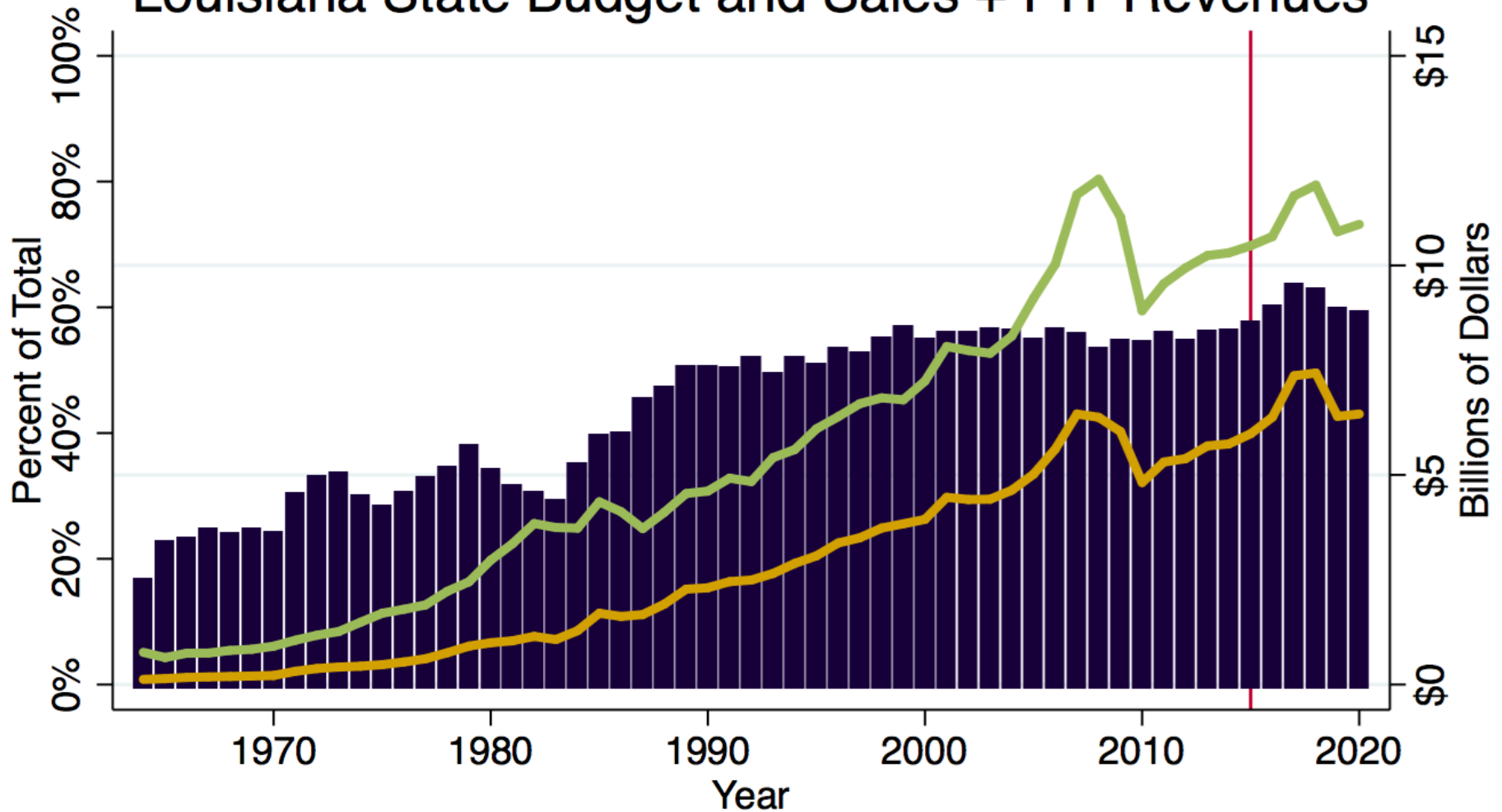
Why Look at Sales and Individual Income Tax Together?

1. Major sources of state revenues—close to 60%
2. State Added over \$1 billion in expanded sales tax revenues in Special Session 2016
3. Sales tax is **major source of revenues for local governments**—over 55%
4. Income tax can be progressive, while sales tax is likely to be more regressive
5. Both taxes affect businesses and state's competitive environment
6. Louisiana has diminished the sales tax base by exemptions and exclusions and the individual income tax base by exclusions, exemptions, and credits

Louisiana 2018 Revenue Shares by Source



Louisiana State Budget and Sales + PIT Revenues

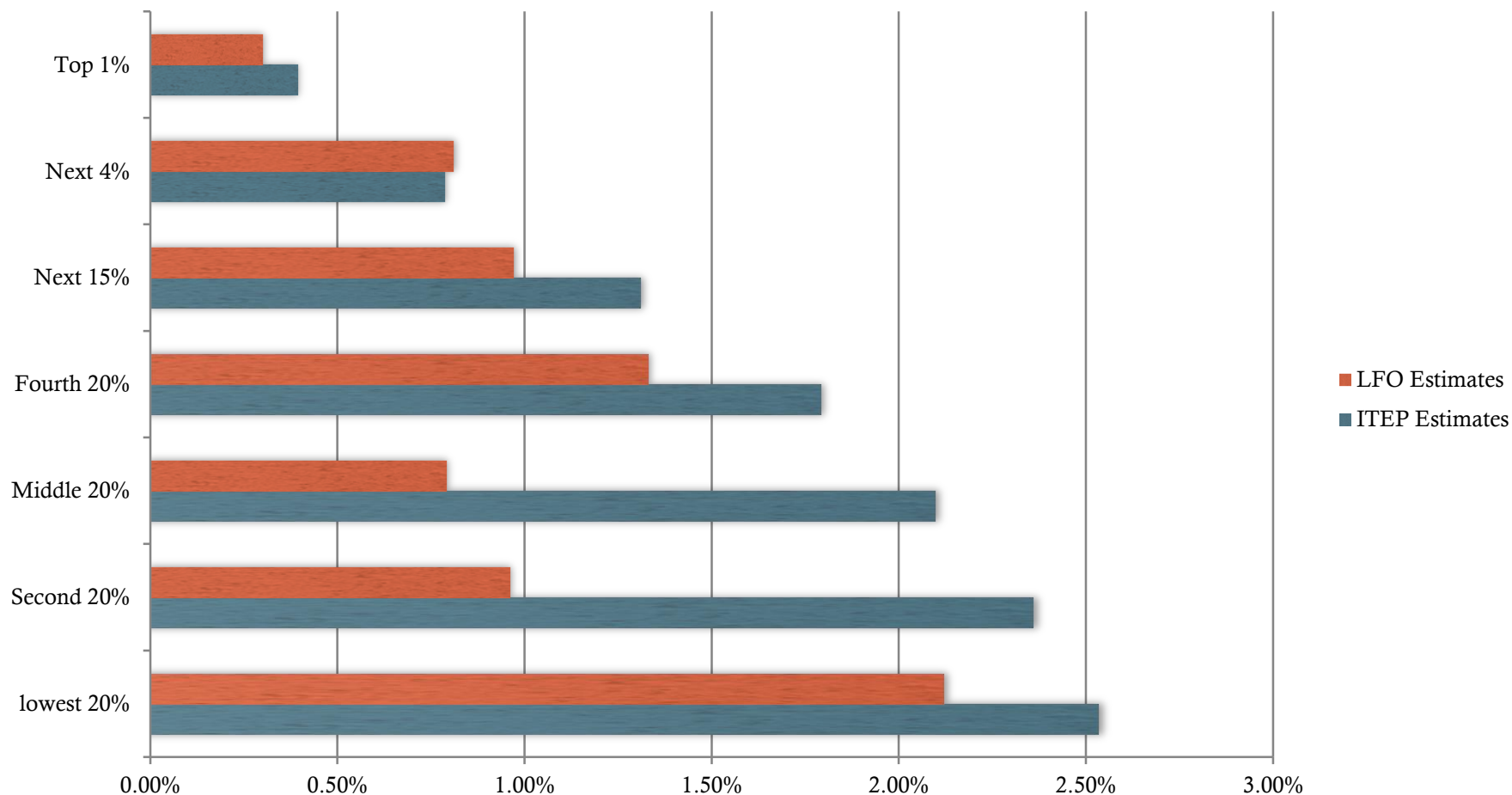


State Revenues include all taxes, licenses, and fees.

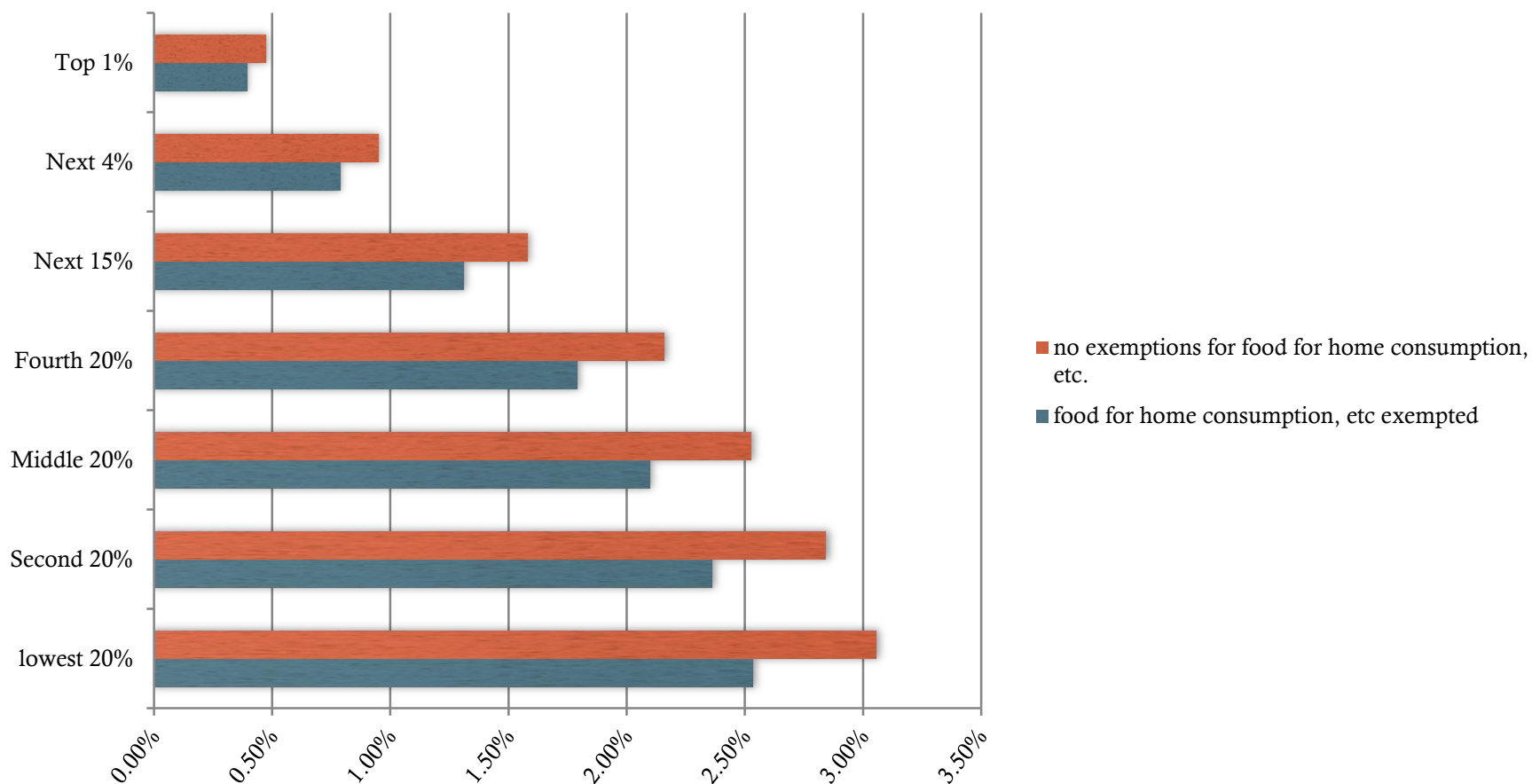
Distribution of Sales and Income Tax Burdens with Current Tax Structure, including all exemptions, exclusions, deductions, and credits

	Adjusted Gross Income	Taxpayers
Lowest 20%	0 to \$15,000	395,369
Second 20%	15,501 through \$30,000	398,040
Middle 20%	\$30,001 through \$50,000	312,504
Next 20%	\$50,000 through \$90,000	326,312
Next 15%	\$90,001 through \$180,000	239,131
Next 4%	\$180,000 through \$323,068	54,221
Top 1%	over \$323,069	20,036

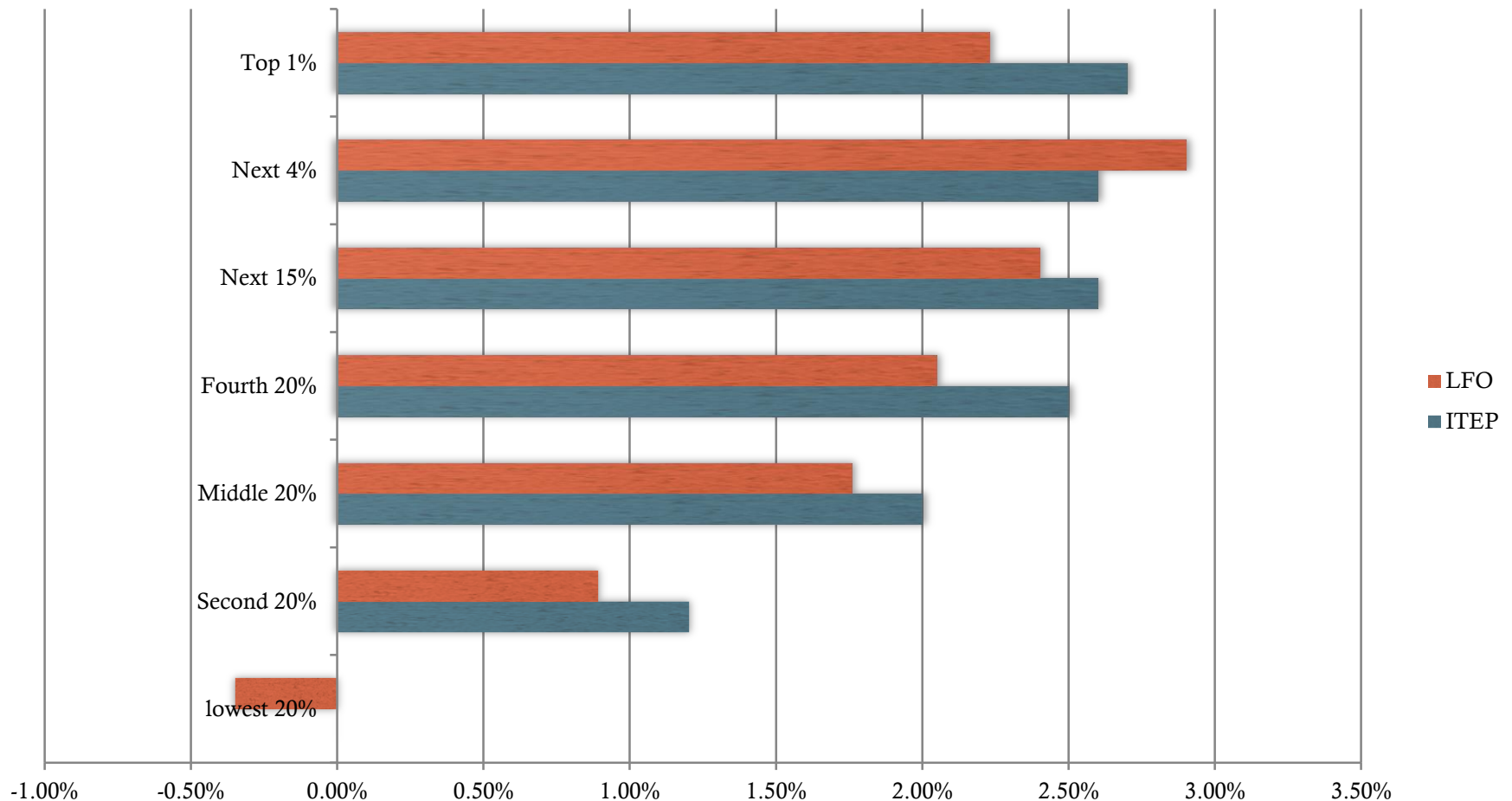
Estimates of Who Pays, as % of Average Income, the Current State Sales Tax in Louisiana?



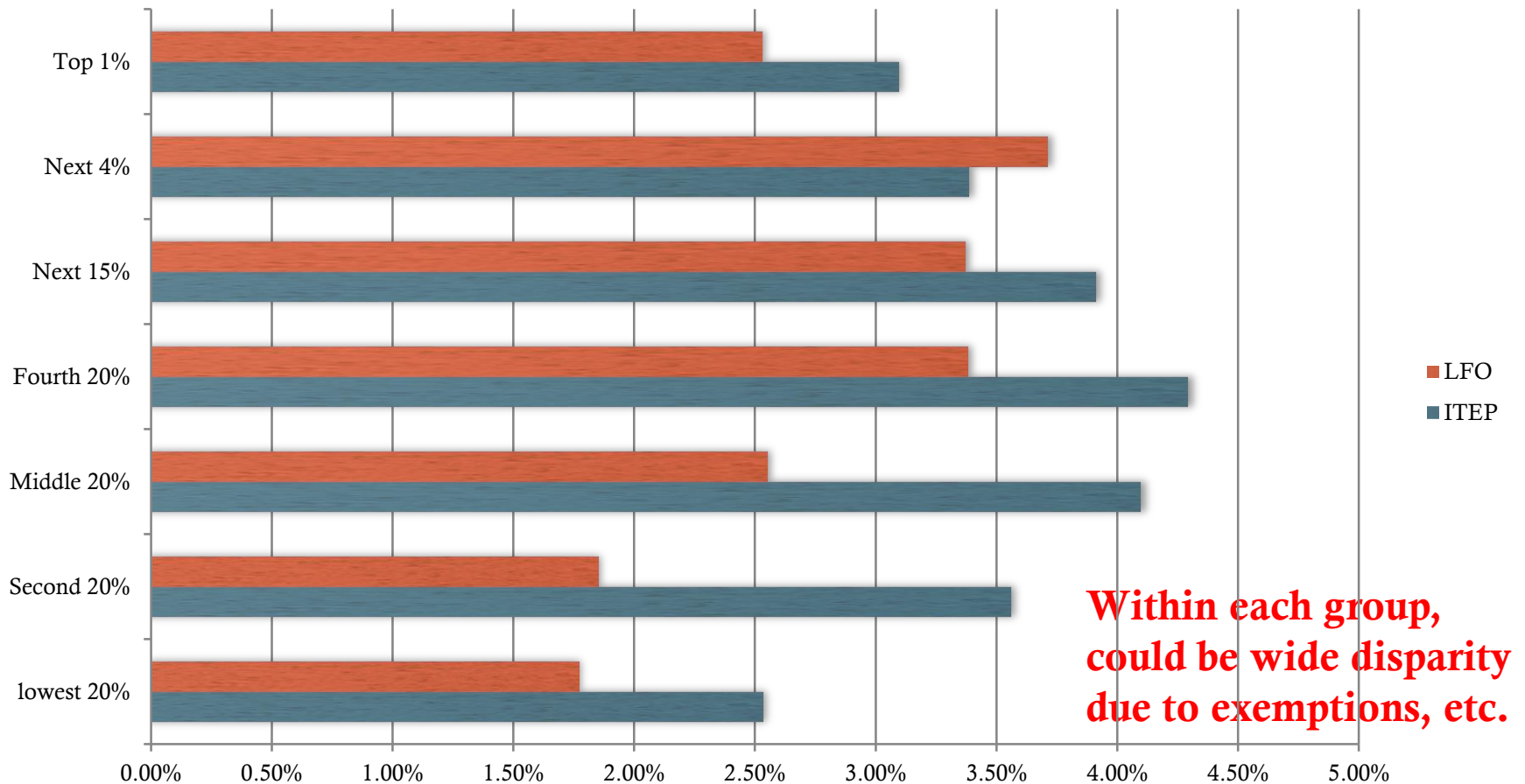
Estimated sales tax burdens with and without food, utilities, and prescriptions



Distribution of Who Pays, as % of Average Income, the Current Income Tax in Louisiana?



Distribution of Who, as % of Average Income, Pays Current State Sales and Income Tax in Louisiana



Changing Sales Tax Base and Rate

- **Sales Tax Issues**
- High rate of 5% and high local rates on top – averaging from 10 to 11% both state and local
- Multiple exemptions/exclusions
- Exempt almost all services, fastest growing part of the national and state economy
- **Add back** these items
 - Food for home consumption
 - Gasoline
 - Prescriptions
 - Utilities for residential and businesses
 - MME
- **Maintain** expanded tax base of 2016 special session
- **Add services plus** as proposed in 2013

Goal is to replace projected sales tax collections for 2017 of \$4.3 billion with a larger sales tax base and a lower rate.

New Sales Tax Base

Items to be taxed	Estimated Revenues per penny today if taxed (in millions \$s)
Current Tax Base	\$798
Expanded Base as of February 2016	\$90
Food for Home Consumption	\$99
Gasoline and special fuels	\$67
Prescriptions	\$71
Utilities for Residential	\$50
Utilities for Non-residential	\$65
Manufacturing Machinery and Equipment	\$19
Services	\$124
Total	\$1,383

Taxing Services: 2013 Plan

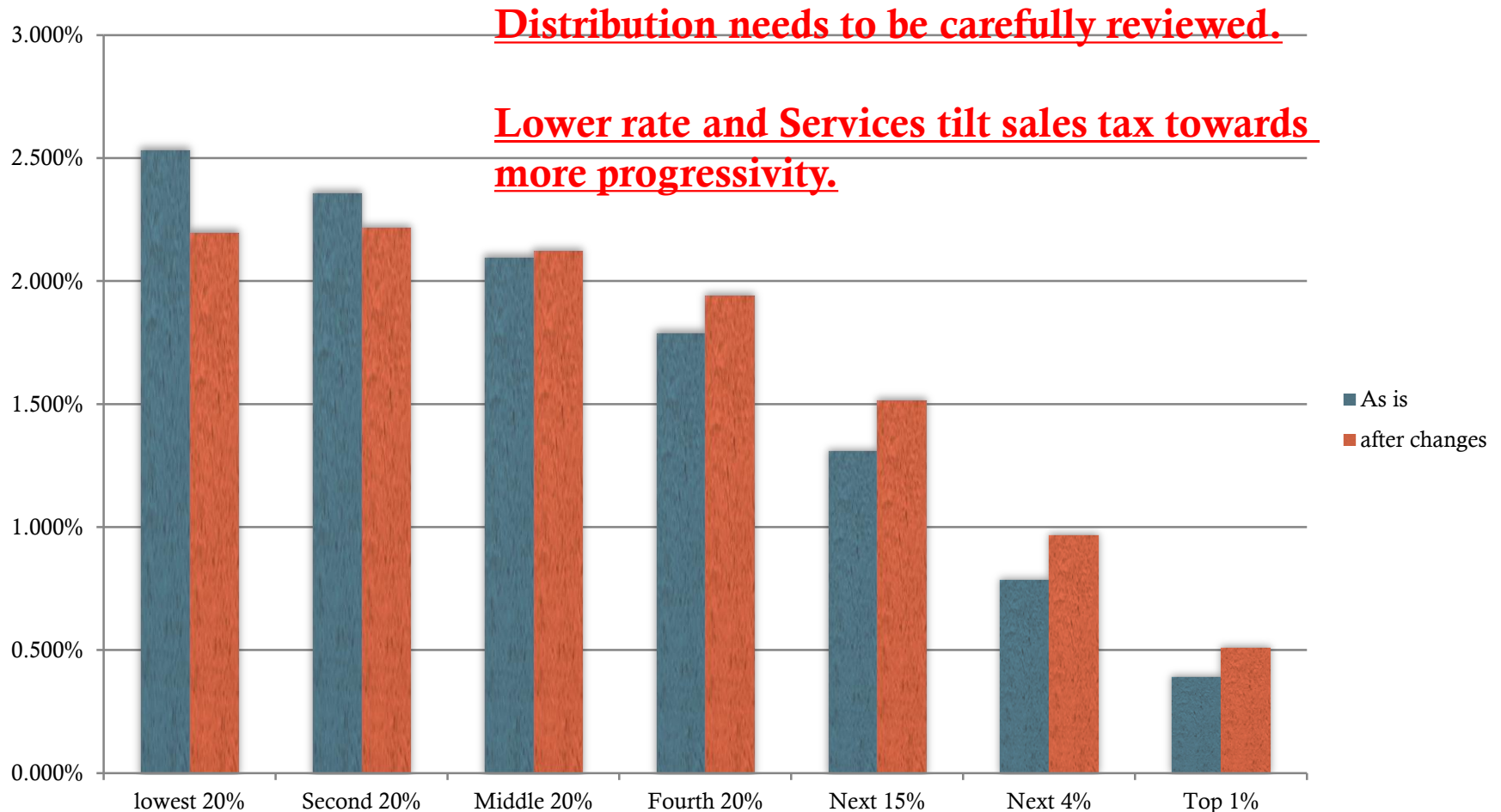
Included Items	2013 Tax Base Estimate	2013 Tax Estimate (at 4%)	Adjustment for CY2015
Scenic and sightseeing transportation services and support activities for transportation	\$1,080,872,150	\$43,234,886	\$47,329,167
Veterinary services	\$207,122,851	\$8,284,914	\$9,069,484
Cable and other subscription services	\$221,854,739	\$8,874,190	\$9,714,563
Performing arts	\$44,550,187	\$1,782,007	\$1,950,761
Promotional services for performing arts and sports and public figures	\$229,732,279	\$9,189,291	\$10,059,504
Independent artists, writers, and performers	\$57,663,899	\$2,306,556	\$2,524,983
Museum, heritage, zoo, and recreational services	\$169,553,541	\$6,782,141	\$7,424,400
Personal care services	\$631,267,683	\$25,250,707	\$27,641,913
Other personal services	\$663,683,918	\$26,547,356	\$29,061,353
Total	\$3,306,301,247	\$132,252,050	\$144,776,127

Expanded Services Tax Base			
Included Items	2013 Tax Base Estimate	2013 Tax Estimate (at 4%)	Adjustment for CY2015
From 2013	\$3,306,301,247	\$132,252,050	\$144,776,127
Other Personal Services:			
Transit and ground passenger transportation services	\$367,811,060	\$14,712,442	\$16,105,689
Couriers and messenger services	\$707,881,040	\$28,315,242	\$30,996,654
Accounting, tax preparation, bookkeeping, and payroll services	\$1,577,445,934	\$63,097,837	\$69,073,111
Architectural, engineering, and related services	\$3,455,246,566	\$138,209,863	\$151,298,136
Photographic services	\$70,201,160	\$2,808,046	\$3,073,964
All other miscellaneous professional, scientific, and technical services	\$827,151,371	\$33,086,055	\$36,219,257
Data processing-hosting-ISP-web search portals	\$555,398,097	\$22,215,924	\$24,319,740
Other information services	\$81,956,833	\$3,278,273	\$3,588,721
Insurance-related support services	\$338,513,160	\$13,540,527	\$14,822,795
Total	\$11,287,906,468	\$451,516,259	\$494,274,194

**To get \$4.3 billion with
the expanded base,
the state sales tax rate
needs to be**

3.1%

Who Pays Sales Tax, as % of Average Income, Under the **As Is** and **After Changes**



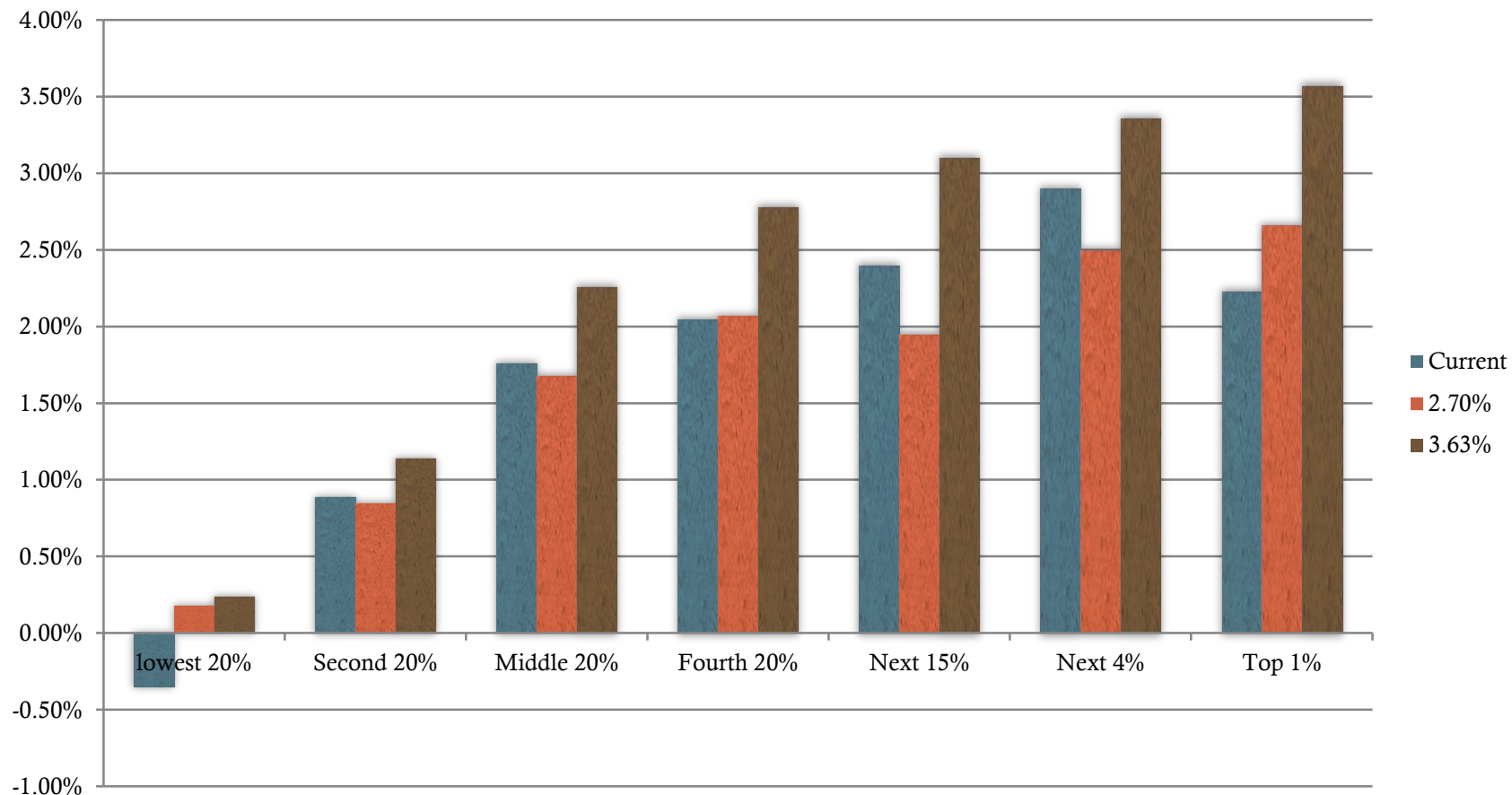
Changing Income Tax Base and Rate

- **Income Tax Issues**
- High rate of 6% starting at \$50,000 of taxable income for single filers and \$100,000 of taxable income for joint filers competitive with other states in South with individual income tax
- Multiple exemptions/exclusions/deductions/credits
- Horizontal inequities
- Progressivity can be affected unknowingly
- Ability to project hampered, especially in long-term
- **Eliminate all exclusions**
 - State and federal retirement
 - Social security
 - military pay
- **Eliminate all credits**
 - Earned income tax credit
 - Louisiana Citizens
 - Education Credit
 - All others except Historic Tax Credit and Film Credit (these two are undergoing alterations and need to be examined as expenditures, not tax policy)
- **Eliminate all deductions**
 - Standard Deductions
 - Excess Itemized Deductions
 - Federal Tax Liability
 - Net Capital Gains
 - School Tuition
 - All others
- **0% tax rate on First \$10,000/\$20,000**

Comparisons

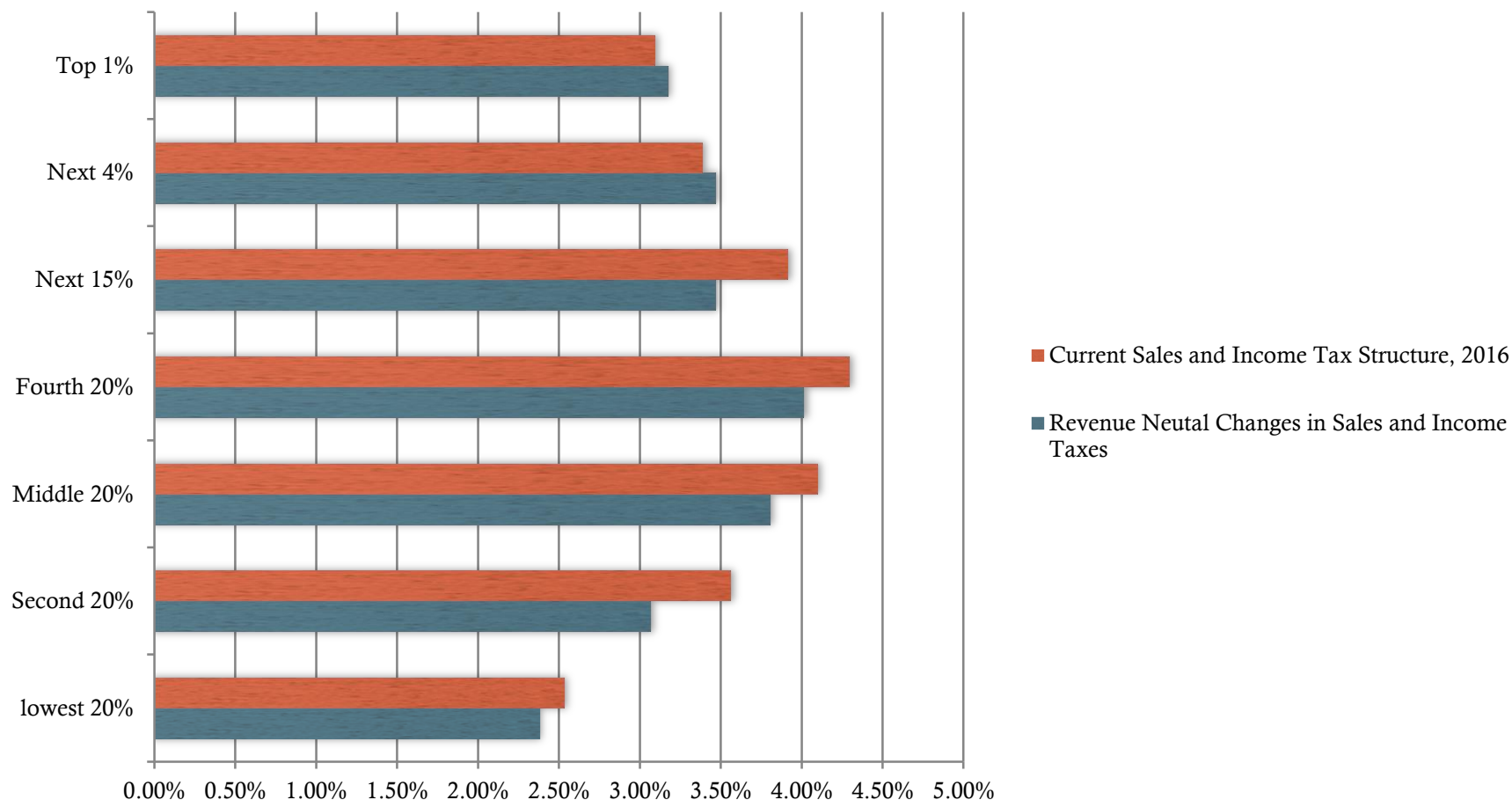
- Current Tax Structure
- \$10,000/\$20,000 before single filer/joint filers pay any income taxes and then single rate of 2.7%--revenue neutral
- \$10,000/\$20,000 before single filer/joint filers pay any income taxes and then single rate of 3.63%--bringing in estimated \$750 million
- We are not saying the state needs to raise \$750 million, but, since the state used the sales tax almost exclusively in the first special session to pay for public programs, then the state should look at its other major revenue source to continue the effort to balance the budget.

Distributional impact of various income tax options

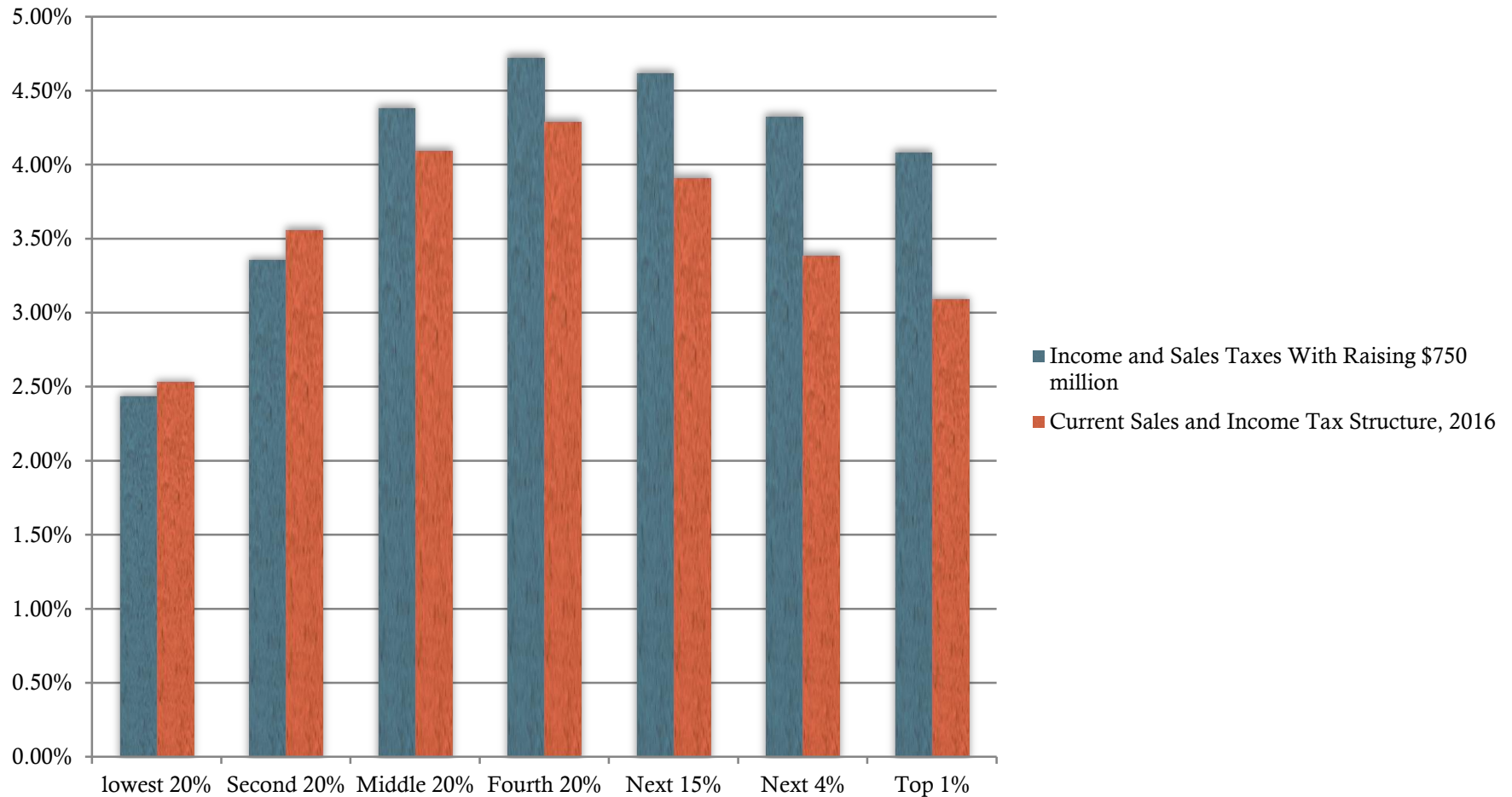


Sales and Income Tax Comparisons

Distributional Estimates of Revenue Neutral Changes in Sales and Income Taxes



Distributional Estimates of Increasing Revenues with Sales Tax and Income Taxes



Choices to be Made

- Changing Tax Bases
- Changing Rates
- Distributional Impacts do not take into account the impact on persons or businesses receiving the exemption/deduction/credit
- Business impacts have to be examined
- **But we can lay out the decisions the Task Force, the Legislature and Governor, and ultimately the people will need to make**

Basic Decisions on Income Tax

Decisions	Choices
How Much Money to Get from Individual Income Tax to fund state programs?	Basic choice of how do we want to pay for public services. Every tax has its positives and its negatives.
Rate Structure	Marginal Rate (such as 2%/4%/6%) or a Single Rate (such as 2.7% or 3.4%); can have progressivity with either rate structure.
Exemptions, Deductions, Credits	Each exemption/deduction/credit reduces revenue potential of income tax system or creates need for higher rate(s).

Always concerned about economic consequences of any tax proposal, but low rates with broad bases typically minimize adverse effects of a tax

Exclusions, Deductions, Credits

(✓ to keep or ✗ to eliminate)

Exclusions		Deductions		Credits	
Annual Retirement	✗	Personal Exemption/Standard Deduction	✗	Income Tax Payments to other states	✓
Disability	✗	Excess Itemized	✗	EITC	✗
State Retirement	✗	Federal Tax Liability	✗	Historic Tax Credit	★
Federal Retirement	✗	Net Capital Gains	✗	Film Credit	★
Social Security	✗	School Tuition/other school-related	✗	LA Citizens	✗
Military Pay Exclusion	✗	All others	✗	Solar	✗
Our choices to make income tax base as broad as possible and get the lowest possible tax rate.				Child Care/Education	✗
				All Others	✗
★ already in transition; expenditure decision					

Exclusions, Deductions, Credits

(✓ to keep or ✗ to eliminate)

Exclusions		Deductions		Credits	
Annual Retirement	✗	Personal Exemption/Standard Deduction	✗	Income Tax Payments to other states	✓
Disability	✓	Excess Itemized	✗	EITC	☑
State Retirement	☑	Federal Tax Liability	✗	Historic Tax Credit	★
Federal Retirement	☑	Net Capital Gains	✗	Film Credit	★
Social Security	✗	School Tuition/other school-related	✗	LA Citizens	✗
Military Pay Exclusion	✓	All others	✗	Solar	✗
☑ up to \$30,000 of state and federal retirement income; EITC adds progressivity to income tax				Child Care/Education	✗
				All Others	✗
★ already in transition; expenditure decision					

Basic Decisions on Sales and Use Tax

Decisions	Choices
How Much Money to Get from Sales and Use Tax to fund state programs?	Basic choice of how do we want to pay for public services. Every tax has its positives and its negatives.
Rate Structure	How low or high a rate does state want to impose; and taking into account the use of sales tax by locals
Exemptions and Exclusions	Some exclusions are absolutely necessary, either for good business practices or federal law; most exemptions are a matter of choice

Always concerned about economic consequences of any tax proposal, but low rates with broad bases typically minimize adverse effects of a tax

Exclusions and Exclusions

(✓ to keep or ✗ to eliminate)

Constitutional		“True” Exclusions		Exemptions and Other Exclusions	
Food for home consumption	✗	Sales for Resale	✓	Business Utilities	?
Gasoline and Diesel	✗	Sales in Interstate Commerce	✓	Manufacturing Machinery Equipment	?
Prescription Drugs	✗	Sales to Federal Government	✓	Purchases of Tangible Personal Property for Lease/Rental	?
Residual Utilities	✗	Isolated or Occasional Sales	✓	Tax Holidays	✗
		Articles traded in for like items of property	✓	All Exemptions/Exclusions taxed as of 2016	✗
Our choices to make income tax base as broad as possible and get the lowest possible tax rate minimizing adverse effects of any tax choice.				Others	✗

Final Point on Sales and Use Tax: Imperative for State and Local Governments To Join State in

1. Securing a Common Sales Tax Base;
2. Creating uniform collection system with appropriate auditing responsibilities; and,
3. Insuring proper distribution of sales tax collections.
4. this is not a one year project—it will stretch over 3 to 5 years
5. Purpose is not just to accommodate Market Fairness Act if it were to pass, but to do what is in the best interests of the state

Choices to be made or Hybrid

Current Tax Structure		Broad Base/Low Rates	
Individual Income Tax	General Sales Tax	Individual Income	General Sales Tax
2%/4%/6%	5% on traditional base; 1-3% on other items	2.7% to 3.63% or lower marginal rates than we now have	3.1%
Numerous deductions, exclusions, and credits	Constitutional exemptions; over 190 specified exemptions/exclusions; limited services taxed	No deductions, exclusions, and credits; first \$10,000/\$20,000 not taxable but gradually declines to zero	Remove constitutional exemptions; expand services to be taxed; retain 2016 base

Income and Sales Tax Options: Broad Base and Low Rates

**These suggested changes will be difficult to accomplish;
however, without some structural change, we will be left with
the very same budgetary issues we are having right now.**



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